

Message Text

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73/43

ACTION EUR-12

INFO OCT-01 EA-07 ISO-00 SP-02 AID-05 EB-07 NSC-05 CIEP-01

TRSE-00 SS-15 STR-04 OMB-01 CEA-01 CIAE-00 COME-00

FRB-03 INR-07 NSAE-00 USIA-06 XMB-02 OPIC-03 LAB-04

SIL-01 L-03 H-02 PA-01 PRS-01 /094 W

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R 131600Z JAN 76

FM AMEMBASSY PARIS

TO SECSTATE WASHDC 6772

INFO AMEMBASSY BONN

AMEMBASSY LONDON

AMEMBASSY ROME

AMEMBASSY TOKYO

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C O R R E C T E D C O P Y (P A R A 2 L I N E S 1 3 , 1 4 & 1 5)

PASS TREASURY, FEDERAL RESERVE, COMMERCE

E.O. 11652: N/A

TAGS: EFIN, FR

SUBJECT: FOURCADE COMMENTS ON INFLATION AND EXCHANGE
RATE

REF: (A) PARIS 0718 (B) PARIS 0482

1. AT A NEW YEAR PARTY HELD FOR THE PRESS JANUARY 12,
FINMIN FOURCADE REPLIED TO A QUESTION ABOUT POLICY
DIFFERENCES BETWEEN GOF AND THE PATRONAT (ROUGH
EQUIVALENT OF NAM IN THE US) AS FOLLOWS: "THE
PATRONAT THINKS THAT FRANCE CAN AFFORD ANY KIND OF
INFLATION WHICH WOULD WEAKEN MONEY IN ORDER TO
SUSTAIN EXPORTS. WE BELIEVV, ON THE CONTRARY, THAT THE
DEVELOPMENT OF INFLATION AND THE DEPRECIATION OF THE
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FRANC WOULD AGGREVATEHINEQUALITIES."

2. THE ABOVE IS ONE MORE OF MANY INDICATTONS, INCLUDING RECENT TRENDS IN MONETARY AGGREGATES, THAT REVEAL THE PRIORITY BEING GIVEN TO RESTRAINING INFLATION IN CURRENT GOF POLICY. SUCH POLICY BOTH CONTRIBUTES TO AND IS REINFORCED BY A RELATIVELY STRONG FRANC. THUS THERE IS LITTLE DOUBT AS TO THE OBJECTIVES OF GOF MONETARY AND FOREIGN EXCHANGE POLICY IN 1976. THE ONLY QUESTION IS WHETHER THE POLICY CAN BE SUSTAINED IN THE FACE OF A SLOW AND STILL UNCERTAIN ECONOMIC REVIVAL, WHICH CURRENTLY IS BURDENED BY AN INFLATION RATE ON THE BASIS OF RECENT QUARTER TO QUARTER CHANGES OF ALMOST 9.5 PERCENT AT AN ANNUAL RATE. THE PATRONAT MAY WELL PUSH THE VIEW THAT AS THE INFLATION RATE IS HARDLY SATISFACTORY IN ANY CASE A FEW MORE POINTS ON THE ANNUAL RATE WOULD BE AN ACCEPTABLE PRICE FOR A QUICKER RECOVERY AND THAT A SLIGHTLY WEAKER FRANC WOULD ASSIST SUCH A RECOVERY. UNLESS THE INFLATION RATE SLOWS APPRECIABLY IN THE COMING MONTHS, WHICH SEEMS UNLIKELY, SUCH HARGUMENTS WILL ASSUME INCREASING WEIGHT IN POLITICAL AND SOCIAL TERMS. MEANWHILE, FOURCADE SOLDIERS ON WITH HIS MESSAGE OF THE MANIFOLD BENEFITS OF STABILITY AND FISCAL RESPONSIBILITY, A VIEWPOINT HE HAS SO IDENTIFIED HIMSELF WITH THAT ANY CHANGE IN CURRENT MONETARY AND FISCAL POLICY PROBABLY WOULD MEAN HIS DEPARTURE FROM THE FINANCE MINISTRY.

RUSH

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04 MAY 2006

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